GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3221
ANSWERED ON:12.05.2006
LIBERALISATION OF OVERSEAS INVESTMENT
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Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India has lately decided to liberalize and ease up overseas investments;

(b) if so, to what extent; and

(c) the manner in which it is likely to help to curtail the growth of inflation rate?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (c) : A statement is laid on the Table of the House.

Statement referred in reply to parts (a) to (c) of the Lok Sabha Unstarred Question No.3221 for answer on 12th May, 2006

(a) & (b): Reserve Bank of India (RBI) has taken initiatives for substantial liberalization of overseas investments in the last three years. RBI has of late taken the following measures since 1st January, 2006:-

(i) Disinvestment:

Indian listed companies have been permitted to disinvest in a Joint Ventures/Wholly Owned Subsidiaries (JVs/WOS) abroad even in the case where such disinvestment may result in a write-off of the capital invested to the extent of 10% of the previous year's export realization. In order to enable companies to have operational flexibility according to their commercial judgement, automatic route of disinvestment has been further liberalized. General permission has been extended to the Indian parties to disinvest without prior approval of the Reserve Bank of India in categories, viz. (a) where JVs/WOS are listed in the overseas stock exchange, (b) where the Indian promoter company is listed on a stock exchange in India and has a net worth of not less than Rs.100 crore and (c) where the Indian promoter is an unlisted company and the investment in overseas venture does not exceed US $ 10 million.

(ii) Guarantees:

With a view to simplify the procedure, scope of guarantees covered under the Automatic Route has been enlarged to cover any forms of guarantees issued by Indian entities, such as, corporate or personal, whether primary or collateral, whether by the promoter company, their group company, sister or associate company in India, subject to the condition that total financial commitments including all forms of guarantees are within the overall prescribed ceiling for overseas investment of the Indian party, i.e. currently within 200% of the net worth of the investing company (Indian party) and that no guarantee is "open ended" i.e. the amount of such guarantee should be specified upfront.

Guarantees issued by banks in India in favour of JVs/WOS outside India, would be subject to prudential norms issued by RBI from time to time.

(iii) Overseas Direct Investment by proprietary/unregistered partnership firms:

With a view to enabling recognized star exporters with a proven track record and a consistently high export performance to reap the benefits of globalization and liberalization, proprietary/ unregistered partnership firms satisfying certain prescribed eligibility criteria were allowed to set up a JV/WOS outside India under the approval route.

(iv) Acquisition of Foreign Securities by Resident Individuals under Employees Stock Option Scheme (ESOP):

As a measure of rationalization, the Authorised Dealer banks may allow remittance for acquiring shares under ESOP Schemes, irrespective of the method of the operationalisation of the scheme either offered directly by the issuing company or indirectly through a trust/a Special Purpose Vehicle (SPV)/step down subsidiary, provided
(i) the company issuing the shares effectively, directly or indirectly holds in the Indian company, whose employees/directors are being offered shares, not less than 51% of its equity,
(ii) the shares under the ESOP Scheme are offered by the issuing company globally or uniform basis, and
(iii) reporting requirements.

Foreign companies are also granted general permission to repurchase the shares issued to residents in India under any ESOP scheme provided
(i) the shares were issued in accordance with the Rules/Regulations framed under Foreign Exchange Management Act, 1999,
(ii) the shares are being repurchased in terms of the initial offer document and,
(iii) reporting requirements.

(c) Reserve Bank of India in its Annual Policy Statement for the year 2006-07 has reflected its overall approach to inflation as under:-

Barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the current assessment of the economy including the outlook for inflation, the overall stance of monetary policy at this juncture will be:-

To ensure a monetary and interest rate environment that enables continuation of the growth momentum consistent with price stability while being in readiness to act in a timely and prompt manner on any signs of evolving circumstances impinging on inflation expectations.

focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic, in particular, financial stability.

To respond swiftly to evolving global developments."